

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 /091 W
-----051296 271324Z /72

R 270913Z JUN 78
FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 7893
INFO AMCONSUL HONG KONG
AMEMBASSY MANILA
AMEMBASSY SEOUL
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO

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E.O. 11652: N/A
TAGS: EFIN, TW
SUBJECT: INDICATIONS THAT ROC IS SERIOUSLY CONSIDERING
UPWARD REVALUATION

1. DURING EMBOFF MEETING JUNE 22 WITH Y. T. WONG, VICE
MINISTER OF ECON AFFAIRS, HE MENTIONED THAT ROC'S TRADE
SURPLUS WAS UNCOMFORTABLY LARGE IN APRIL AND MAY AND IS
EXPECTED TO REMAIN SO THROUGH SEPTEMBER. IN FACT, HE SAID
AN INCREASE OF 45 PERCENT IN EXPORTS IS FORECAST FOR SIX-
MONTH PERIOD APRIL - SEPTEMBER. AS A CONSEQUENCE, ROC
GOVERNMENT IS NOW WORRYING ABOUT AN OVERABUNDANCE OF
FOREIGN EXCHANGE RESERVES. WONG THEN LET SLIP THAT WORKING
THROUGH A REVALUATION "WILL BE A LONG AND AGONIZING
PROCESS." WHILE THERE WAS NO EXPLICIT REFERENCE MADE TO
KEEPING THE NT DOLLAR PEGGED TO THE U.S. DOLLAR, HIS PRAISE
FOR THE U.S. AS THE WORLD'S STRONGEST ECONOMY AND THE RE-
SULTANT UNDERLYING STRENGTH OF THE U.S. DOLLAR LEFT THE
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IMPRESSION THAT THE NT DOLLAR WOULD NOT BE PEGGED TO ANY
OTHER CURRENCY.

2. AT AMBASSADOR'S MONTHLY MEETING WITH AMCHAM ON JUNE 20,
U.S. BANKER INDICATED THAT CENTRAL BANK GOVERNOR YU IS NOW
PREOCCUPIED WITH CONTROLLING INFLATION AND THAT WITHIN THE
NEXT YEAR REVALUATION IS A DISTINCT POSSIBILITY.

3. AN ARTICLE IN JUNE 27 EDITION OF THE ROC'S CHINESE LANGUAGE CHING-CHI JIH PAO (ECONOMIC DAILY NEWS) STATED THAT, ACCORDING TO SOURCES IN JAPAN, THE ROC WOULD CONSIDER REVALUATION IF THE JAPANESE YEN ROSE TO 200 TO THE U.S. DOLLAR.

4. OTHER GROC OFFICIALS HAVE INDICATED TO EMBOFFS THAT REVALUATION REMAINS A POSSIBILITY, BUT HAVE GIVEN NO INDICATION ABOUT TIMING. SUN CHEN, VICE CHAIRMAN OF THE COUNCIL FOR ECONOMIC PLANNING AND DEVELOPMENT, TOLD EMBOFF THAT REVALUATION WAS "POSSIBLE BUT NOT VERY PROBABLE." HE OPINED THAT RISING WAGE RATES WOULD CAUSE EXPORT PRICES TO RISE IN A FEW MONTHS ANYWAY, AND THEREFORE A REVALUATION, WHICH WOULD HAVE THE SAME EFFECT, WAS NOT REALLY NECESSARY. OTHER U.S. BANKERS IN TAIPEI HAVE STATED THAT REVALUATION HAS BEEN A POSSIBILITY FOR SOME TIME NOW, BUT THEY HAVE HEARD NOTHING TO INDICATE ANY SUCH ACTION IS IMMINENT. UNGER

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